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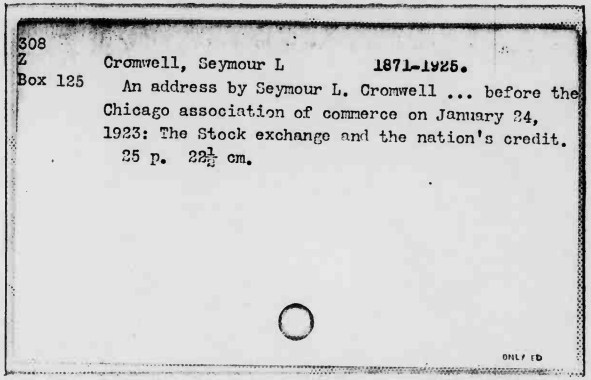
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Through the President's Office

AN ADDRESS BY

# SEYMOUR L. CROMWELL

PRESIDENT OF THE NEW YORK STOCK EXCHANGE

BEFORE THE
CHICAGO ASSOCIATION OF COMMERCE
ON JANUARY 24, 1923

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## THE STOCK EXCHANGE AND THE NATION'S CREDIT

ADDRESS BY

## SEYMOUR L. CROMWELL

PRESIDENT OF THE NEW YORK STOCK EXCHANGE

Although I have come many hundreds of miles to be with you tonight—have journeyed over stretches of territory which in Europe would, perhaps, have taken me across a procession of nations with marked variances in language, customs, and other characteristics—I do not feel that I am a stranger among you.

I feel that as a representative of the New York Stock Exchange I am just as much identified with this locality and its institutions, particularly its financial institutions, as I am identified with the East and those institutions in New York. In coming here I have merely changed my geographical position on the great highway of finance which traverses our country and radiates into every city, town and hamlet within its confines.

In New York that thoroughfare reaches its terminus in the district known as "Wall Street." A lot of misunderstanding exists concerning "Wall Street." That is unfortunate because, in fact, "Wall Street," in New York, is itself an actual part of the centers which exist here and in all of our cities and towns; and they are part of it.

You have your commercial and industrial and financial institutions which are so necessary to the welfare of your communities. You have your banks and your financial houses. Your business men and the public generally view them with confidence and respect because everyone realizes that they have their legitimate, useful place in the conduct of your city's business affairs. But they are all a part of

"Wall Street," for "Wall Street" is merely a continuation of what you have right at home.

Your banks and your financial institutions have their direct telephonic and telegraphic connection with "Wall Street." That is necessary not merely because they require to be kept in touch with what "Wall Street" is doing and thinking, but also because "Wall Street" requires to be informed about your financial and industrial affairs and the opinions of your financiers and business men.

What they do and what they think and also the transactions and opinions of the other corresponding centers of the country are molded into that composite of national business and financial thought and action known as "Wall Street." All are "Wall Street," and the geographical center bearing that name is merely their focal point.

Its importance is magnified by the fact that whereas your financial center serves, mainly, the needs of your own community, "Wall Street" performs that service for the entire country. It helps your financial institutions to do their part. Because of that and also because the hub of Wall Street is the New York Stock Exchange, I feel that I am one of you. We are co-workers in the nation's business.

It has become the fad to lay the blame for all of our financial ills and the majority of our economic troubles upon Wall Street. The name serves as a convenient bogy for sensational writers and speakers when they desire to visualize a sinister financial force presumed to be working continually against the public interest.

In reality Wall Street has attained its financial prominence much in the same way that the City of New York has gained its pre-eminent commercial position.

Commerce and finance go hand in hand. And New York today is the financial centre of the country not because of intrigue and machinations



of moneyed interests but simply because force of circumstances and a quite natural evolution have given it that position.

Wall Street is no more a league of sinister financial interests than is Chicago an aggregation of piratical distributors of wheat, or Pittsburgh a centre of steel highbinders.

Wall Street is so closely in contact with other sections of the country that when the savings of a storekeeper in Medicine Bend, Idaho, are offered for investment in a Steel Corporation bond, that storekeeper's broker buys the bond, not in Medicine Bend, but through "Wall Street," 2,500 miles away. Perhaps he secures the very bond that has been ordered sold by a merchant in Richboro, Pennsylvania, who needed money to replenish his fall stock.

Such transactions are not mere suppositions. Parallel incidents are of every day occurrence, and they indicate that in matters of finance and investment all roads in the United States eventually lead to Wall Street, the terminal of finance.

Wall Street has grown up about the Stock Exchange in the natural course of events. Both the Exchange and the surrounding financial districts had very humble beginnings. The Stock Exchange was organized 130 years ago as an open air market for transactions in securities. Its first meetings were held under the shelter of an old buttonwood tree which used to stand where 68 Wall Street is today. A handful of dealers who bought and sold the few Government securities of our new Republic constituted the original membership. Their purpose in associating together was the better protection of the buyers and sellers of those securities—in other words, their own and the public's better protection.

In olden times enterprises of commercial or industrial importance were dependent for success

largely upon the private investments of a few individuals. But when steam power began to revolutionize the world, it opened the way to undertakings of such vast magnitude, that private fortunes were unequal to the task of financing them.

Up to that time securities offered for investment were mainly obligations of the Government. The plan of drawing upon the public savings to develop commercial and industrial enterprises was not generally followed but the idea of doing so appeared more practicable than it had theretofore been because of the enormous possibilities opened up by the new discoveries.

Then appeared the primitive form of stock company through which many important enterprises were financed. Investment in such companies proved both safe and profitable to small investors and gave importance to a central market place for securities which could draw upon the savings of all the people. Undertakings which were impossible when dependent upon the financial backing of a few wealthy persons were easily accomplished when a way was found to permit the safe application of the whole public's savings to their consummation.

Issuance of common stock was followed by other innovations in securities such as preferred shares, mortgage and income bonds, convertible bonds and debentures and the other forms of obligations which we have today. All of them were evolutions and were created because they were found capable of more greatly expanding the possibilities of commerce and industry which had been opened up when the idea of employing the public's savings to that end was first adopted.

Our great railroad systems, our steamship lines and our huge industrial enterprises were all made possible through the agency of a central market place for disposal of their securities in which buy-



ing and selling could be conducted on the basis of absolute freedom of transactions and the certainty that the best prices were instantly obtainable on either side of the transactions.

Much of the prejudice expressed against stock exchanges comes from ignorance of what their transactions really mean.

Everyone is familiar with mortgages on real estate and they are considered safe and desirable investments. Anyone having money to invest will unhesitatingly accept a mortgage after having assured himself that the property against which it is issued is of sufficient value to guarantee the return of the amount invested. Many thousands of mortgages are offered and placed daily throughout the country and no one questions the legitimacy or the necessity of the operations which result in the mortgagor securing his loan and the mortgagee acquiring his security.

The buying and selling of securities on the Stock Exchange is in a measure equivalent to the placing or transferring of mortgages. The securities are mortgages issued against the properties or the earnings of the issuing companies and there is real value back of them. The only difference between the methods followed in transactions in securities and transactions in real estate mortgages is that dealings in realty mortgages are scattered transactions between the individuals immediately concerned, because no central market exists for mortgage dealings, whereas in the case of Stock Exchange securities the principals to the transaction do not have to be brought together—do not even have to know each other. The legitimacy of the investment is guaranteed by the central market—the Stock Exchange—and the terms of the deal, which are the prices, are all that need be agreed upon.

Again, some people look with distrust on Stock

Exchanges because their operations are in terms of capital instead of being in terms of commodities. The people as a whole do not yet regard capital in its proper light as merely so much stored-up savings which can be applied to new productivity and when so applied benefits the original producers.

An analysis of the distribution of securities of any of our great corporations will demonstrate that the people and not the so-called interests are their real owners. Over a ten-year period (1910 to 1920) the shareholders in the Pennsylvania Railroad increased from 65,000 to 133,000; in the United States Steel Company from 22,000 to 104,000; and in the American Telephone and Telegraph Company from 35,000 to 120,000. And these three companies are largely typical of American large-scale companies as a whole, since the first is a railroad, the second an industrial company, and the third a public utility.

More and more, as time goes on, there is a demand that the public exert greater power over our large-scale corporations. Some even demand that the State should take over their management in the public interest.

But a sounder way than that, with its inevitable extension of practical politics into the field of business, lies in the gradual distribution of the shares of our large companies to the public, which is being accomplished. Thus the public are gaining control by actual ownership and not by fantastic legislative programs.

The Stock Exchange has played a prominent and vital part in this tremendous widening of the shareholding class in this country, by providing at all times a free and open market where such shares can be bought and sold, and a market furthermore whose prices are made public all over the country with a speed and accuracy unequalled by any other organized market in the world.



In an unobtrusive way, therefore, the Stock Exchange is assisting in a genuine public ownership of American companies, which brings new vitality to the companies themselves in proportion as it distributes their securities among our people. It is perhaps not too much to hope that this wider distribution of American stocks, and this tremendous broadening of the American investing class, may prove of primary importance as a solvent to the perennial quarrels of capital and labor themselves.

When the vast majority of Americans have by this distribution of American securities themselves become both capitalists and laborers, a more effective and lasting solution of the problems of both capital and labor, as well as elimination of the old conflict between them, will be made possible.

Since it is the national clearing house for all transactions in securities the Stock Exchange is, in reality, the people's market. It is a mirror of the people's own estimate of the worth of securities.

Securities having a par value of over sixty billion dollars and more than thirty million shares of stock without par value are dealt in on the New York Stock Exchange. As there is hardly a day passes but that securities of upwards of $100,000,000 par value are bought and sold on the Exchange the importance of its transactions to the smooth working of our commerce and industry may be readily appreciated.

The fundamental purpose of the New York Stock Exchange is to provide the open market for the free and untrammelled purchase and sale of the securities to which I have already alluded.

It provides a market in which any security offered for sale is sold at the best possible price which any member of the Exchange acting for a buyer is willing to pay at the time the offer is made, and conversely, any purchaser of securities obtains them at the lowest price at which anyone is willing to sell.

The Stock Exchange is a necessary market and it is, so far, the best form of securities market that long experience has been able to devise.

I do not claim that it is the last word in perfection. Absolute perfection is, as you know, almost impossible of attainment. But the Exchange under its present form of self-regulation and control is quick to amend or adopt its procedure so as to increase the safeguards with which it endeavors to surround investment in securities.

Some people think the better way to protect the investing public is by the passage of drastic laws but our experience has demonstrated to us that precautions framed and enforced by the Stock Exchange itself are far more effective in suppressing or eliminating fraudulent practices than any laws yet devised.

The Stock Exchange has been giving much attention to methods for the elimination of spurious investments. These are abuses which have crept in through the fraudulent practices of so-called dealers and brokerage firms not under the control of the Exchange, and not in any way connected with it. These abuses have resulted in suggestions for new legislation to prevent fraud and to punish securities swindlers.

Unfortunately many of the proposed remedial measures are illy designed to accomplish their purpose and some of them would assist instead of suppress the swindler. Nearly all of them would harrass the legitimate Exchanges and securities dealers. The New York Stock Exchange has not hesitated to oppose proposed faulty legislation and that opposition sometimes has been misconstrued. The impression has gone abroad that the Stock Exchange is fighting legislation which would protect the public when in fact the Exchange desires such protective legislation provided that it is so drawn as to be really protective. The only legisla-



tion to which the Exchange is opposed is legislation which, while intended to safeguard the public, in practice would make is easier for crooks to defraud the public, and most of the proposed legislation is just that kind of legislation.

The chief evils to be eliminated are the "bucket shops" and the vendor of fake promotions. The "bucket shops," as many people have learned to their sorrow, are so-called brokerage concerns, which operate on the principle of taking an investor's money and after buying the security ordered by him, re-sell it in the name of a dummy and thus retain the investor's money, which they frequently apply to their own purposes. Sooner or later the bucket shop comes to grief and the investor finds that his money has disappeared and that there are no stocks or bonds held in his name and that the whole game has been pretense so far as the bucket shop was concerned.

The Stock Exchange fights this form of swindle by denying its quotations to anyone but a responsible firm doing a legitimate business. The Exchange is enabled to do this because it has complete control over its quotations and can take action whenever it finds that they are being improperly used. It is necessary for even a bucket shop to represent that it has general market quotations in order to attract customers. Therefore, when the bucket shop is cut off from obtaining quotations it has lost its main chance of doing business.

The Exchange cannot directly reach the promoter of fake stock. There is little to prevent anyone from setting up in that business and selling anything which he chooses to call security.

Some public officials suggest that the best way to suppress such abuses is by fraud laws to punish the persons selling swindling securities, but merely passing laws does not stop the commission of crime. So-called "blue sky" laws have been en-

acted in many states for the purpose of eliminating the swindle from investments and are proposed in many other states. Yet what conditions do we find?

The Stock Exchange has investigated the operation of the "blue sky laws" in various States and finds that while they accomplish a certain amount of good, they create endless red tape, and they are comparatively easily evaded. The inquisitorial powers impose a very heavy burden on the legitimate dealer; the crook never attempts to observe the law; there is usually the introduction of politics and political influence through pull exercised on behalf of the shady promoter, and the laws protect the public hardly at all.

In New York State the proposed "blue sky" legislation would include licensing of brokers and dealers as well as official approval being required prior to the issuance of securities. The suggestion has also been made that brokers' books be subjected to periodic examination similar to the State examination of the accounts of banks and trust companies.

All of these measures would work to the detriment of legitimate securities dealers but would have little terror for the crook.

Licensing will not eliminate the fraudulent or unscrupulous dealer in securities. On the contrary, it might very easily be a means of aiding the swindler. Promoters of fake investments are able to sell their so-called securities today. How much more readily could they swindle the public if they were operating in virtue of a State license, which to the undiscriminating public would be a State guarantee both of their own legitimacy and of the merits of the securities they offer. It is impossible to prevent crooks or prospective crooks from obtaining a license. You might do so in the case of an old offender who has a record, but invariably the



decision to grant or withhold a license must be made on the record submitted and on the endorsements secured. This question of endorsements is an exceedingly serious one and reliance cannot be placed upon references furnished by men seeking licenses.

When the New York Stock Exchange cut off its quotations from the firm of Hughes & Dier, whose legal counsel was a New York State Senator—Senator Lusk—because of evidence that satisfied it that they were trading against their customers' accounts, men of the highest political, financial and social standing wrote letters to the Exchange urging that the wires be restored. They sought to bring about the same result by personal interviews, and telephone calls, and all manner of personal solicitation. The Exchange refused to be swayed by these endorsements, and within a few months the firm failed, showing only two per cent. of assets available for the benefit of creditors. Every man who had endorsed the house later expressed his keen regret that he had been misled.

It is certain that no licensing bureau could have resisted the pressure that was brought to bear in this instance, and this is not a unique, but a typical case. The same sort of pressure is constantly brought to bear on the New York Stock Exchange in behalf of people known to the Exchange to be unworthy of the confidence of those who recommend them. The experience of every public man will show him how difficult it is to resist requests for endorsements made on behalf of people against whom he has no definite information. It is a notable fact that there are a number of houses in New York to whom the New York Stock Exchange denies its quotation service for good cause who are licensed in States that have a licensing system.

Unless a man who applies for a license is a known swindler he can demand, and will be entitled to

such a license. The license will give him a certain measure of good standing. If he is disposed towards fraud the license will facilitate his work. Licensing, therefore, is not a protection but in many cases it may become an additional menace to the trader in stocks or the investor.

The members of the New York Stock Exchange object to a licensing system because a very great part of the undiscriminating public would be disposed to put all holders of a State license on a parity. The result would be that the reputation for character and solvency that the members of the New York Stock Exchange have been building up for many years would, in the minds of a great part of the public, count for nothing, all holders of State licenses being regarded alike.

In general the licensing system, where tried, has done much to hamper legitimate business without having been of any great service in suppressing crooks.

Nor does subjecting brokers' books to periodic examination by State officials afford the public any substantial degree of protection from swindling operations. In that connection I may cite the case of a State Securities Commission which placed an accountant in the office of a suspected bucket-shop and after a three-months' examination of the books the accountant reported no evidence of misbehavior. Two weeks later the concern failed and there were no assets available from the wreckage.

There are more effective methods of suppressing swindling than by having an inspection made of brokers' books by public officials.

The Governing Committee of the Exchange recently put into operation a system of checking up on its member-firms doing a margin business. Under this system such firms must answer not less than twice a year a questionnaire covering the essential details of their business, and submit the



same to the Exchange. By this means, dangerous latent conditions can be discovered, and either remedied at once, or prevented from becoming still more dangerous.

Naturally, the full benefits of such a procedure will not be at once apparent. Moreover, cases will inevitably occur when it must cut before it can cure. Nevertheless, after it has been in operation for a sufficient length of time, great benefits from it can be confidently expected.

Not only will it raise the credit standing of all Exchange houses, as a class, by rendering insolvencies among them more and more rare, but it will also tend to standardize stock-brokerage practice along sound and desirable lines.

I have outlined the type of legislation opposed by the Stock Exchange because it would not be a real remedy. But effective legislation can be framed and the Exchange will support the passage of such legislation.

If we are to have new legislation, let us make sure that the new laws really get down to the root of the evil. We already have punitive laws. Let us find additional ways of making such laws applicable to offenders and of making their enforcement more easy.

Present legislation could really be improved by compelling a greater and more widely disseminated amount of publicity regarding corporation affairs, than is afforded today. The Stock Exchange itself has long enforced such a provision with regard to the companies who list stock on its Board, and this corporate publicity, since it affords the means of judging the real value of such securities itself, has proved of great value to our investing public.

Other countries have laws which govern the flotation of new corporate security issues and compel the promoters or directors to issue a prospectus containing the essential information regard-

ing the companies whose securities they are selling. With legitimate securities this law causes little practical difficulty; in the case of doubtful or fraudulent securities it has the effect of making possible the speedy detection of crooked enterprises, and furnishing the law with *prima facie* evidence of crime upon which conviction can readily be secured.

Let our laws require that sworn statements be filed coincident with the issuance of securities and semi-annually thereafter, and that the statements give adequate information concerning the flotation and the financial position of the issuing companies or parties, and also concerning their operations and earnings. That would strike a vital blow at the fake promotion because you would get the jump on it from the start.

Officials of companies whose securities are offered for sale would immediately lay themselves open to punishment and could be easily reached by the present laws if they furnished doctored information to bolster up a swindling promotion. Let us pin the responsibility where it belongs—on the people who furnish the background for the dealer in fake securities—and we will soon make it impossible for such dealers to operate.

That is the kind of legislation the Stock Exchange will support. Something that is simple, direct, easily enforceable and that will readily give protection to the public.

Because of the intimate relation of the Stock Exchange to the credit structure of the nation, there are even larger questions to which I consider it fitting that I should direct your attention.

The Stock Exchange has a natural interest in maintaining a sound and honest currency, because it is a security market whose listed stocks and bonds are being exchanged for money every day.



In times of business depression, particularly on our farms, the perennial fallacy of currency inflation and "soft money" can be expected to reappear and it is reappearing today.

The low price of farm products is wrongfully blamed on credit, instead of the real root of the trouble—the inability of European customers to buy. Our farmers are nevertheless led to think that such an agricultural depression as the present could be prevented by some different system of banking and credit, and consequently are apt to lend a sympathetic ear to radical and unsound proposals to that effect.

Programs for inflating the currency for the supposed benefit of the public vary only in superficial details from one depression to the next. Before the Civil War, state bank notes were tried; during and after the Civil War, greenbacks. Mr. Bryan proposed a free silver currency; Mr. Edison is now proposing a currency based on warehouse receipts. But all of these methods are grounded upon the same fundamental fallacy, and all contain the same profound dangers to the entire American public.

Never, in fact, in the history of the world have the evils of currency inflation been so concretely and so thoroughly experienced as they are today. Never has there been a time when there was less excuse for not realizing the dangers of currency inflation. It has spread like some terribly contagious and insidious disease throughout Russia, Germany, Austria and other European countries. It has brought in its wake continuous quarrels between capital and labor, the practical extinction of the middle and salaried classes, as well as hunger, destitution and poverty which decades may not suffice to banish.

And curiously enough, its deluded victims often call for more paper money, and yet more paper money, as the crazed drug addict demands stronger

and still stronger doses of the stimulant which in the end will destroy him.

Thus far America has fortunately been spared this decay of its money and credit. Almost alone among the great nations, our notes and checks can be freely cashed for gold, and are dollar for dollar as good as gold. No depression, no economic pressure however strong, should ever persuade us to take into our national system as medicine, the virulent germs of this terrible economic disease of currency inflation—the scourge of the nations today.

Sensitive to all the economic forces and cross-currents of our national business life, the stock and bond markets on the Exchange are particularly affected and menaced by currency inflation. The grotesquely exaggerated prices for securities on the Berlin Boerse today, the tremendous fluctuations and colossal speculation there, have been caused by the huge inflation of German mark currency. The New York Stock Exchange, as the primary securities market of the United States, would be doing less than its duty to America if it failed to point out the vast danger to the entire American investment public, of current proposals to inflate our money. The Stock Exchange has no more fondness for "watered money" than it has for "watered stock."

This brings me to the attacks which are being made on our banking system.

Before the establishment of the Federal Reserve system in 1914, the liquidity of the preceding National Banking system rested squarely on the call money market, consisting of demand loans made on the collateral of Stock Exchange securities. This arrangement was emphatically none of the Stock Exchange's seeking; it had arisen inevitably from the fact that at that time the United States possessed in the New York Stock Exchange the most highly perfected and scientific organized se-



curities market in the world, and in its National Banking system probably the worst and weakest banking system of any modern nation.

In the absence of an ability to rediscount at a central bank or banking system, individual banks were compelled to find some central and unifying reservoir, where surplus funds could always be safely loaned, and whence funds thus loaned could quickly be recovered. The broad and active securities market on the New York Stock Exchange filled this need. But from the Stock Exchange standpoint, the popularity of call loans as secondary reserve for our pre-Reserve banking system was by no means an unmixed blessing. It created an overplus of funds at some times, and a most serious shortage at others, which were not without an artificial and disturbing effect on security prices.

Call rates under such a system were bound to fluctuate, and did fluctuate, more violently than perhaps any money rate in the world. In addition, the Exchange earned no thanks for thus being burdened with the inadequacies of our former banking system; on the contrary, it was bitterly assailed whenever a money shortage brought on withdrawal of call funds, high call rates and perhaps declining stock prices.

This former burden imposed on the Stock Exchange was largely lifted by the establishment of the Federal Reserve system, which permitted banks to rediscount or borrow on rediscountable acceptances in lieu of disturbing call loans. Yet the call loan system still survives and for various factors fundamental in American economic conditions, seems likely to continue to do so. Most of the evils of the old call loan market have been removed, while its genuine benefits have been completely retained.

The call loan market is sometimes very shortsightedly looked upon as serving to finance more

speculation. In reality it is a fundamental necessity in the distribution of securities, which, like every other commodity, pass initially through the hands of speculative dealers, and thus are carried by speculators of one type or another until purchased and taken "off the market" by investors. In this respect, call funds perform the same services in aiding the distribution of securities as do commercial funds in the distribution of merchandise. Without the continued service of funds in the call loan market as a sort of permanent revolving fund, the flow of capital into large-scale American industry and commerce would be completely impossible.

Neither is it fair to attribute to the Stock Exchange, or even to speculation in the stock market, the tendency of the interest rate for call loans to fluctuate rapidly and widely. For unlike practically all of the older central rediscounting banks abroad, including the Bank of England, the Bank of France, and the Imperial Reichsbank, our Federal Reserve Banks are forbidden by law to rediscount loans based on security collateral other than obligations of the United States. An indiscriminate rediscount of Stock Exchange loans is desired by no one, and undoubtedly contains serious dangers. But the rediscounting of "Lombards"—as such loans are called in London—can be made a perfectly safe and very beneficial operation, provided their rediscount rate is maintained over their market rate, and both these rates in turn above the similar rate for commercial loans. As long as our call and time loan market is thus discriminated against by law, the Federal Reserve banks cannot exercise the same leadership in rate-making with respect to them, as in the case of commercial loans, and the whole money market in consequence is prevented from attaining a more harmonious and stable tone.

Another complaint, recently aired with more



vehemence than consideration for the facts of the case, has been that money was drawn into the call loan market and from the industry, commerce and agriculture of the country, by high call loan rates. As a matter of fact, the high rates for call money in 1920 were really in themselves proof of the heavy withdrawals of money then being made from the call loan market, for use in commerce and agriculture. In a wave of liquidation such as has been experienced in the last few years, it is an invariable rule that the Stock Exchange is always liquidated first.

Any doubts as to the accuracy of this statement are readily removed by recourse to the facts of the case. The total of funds in call loans as reported to the Federal Reserve Bank of New York by its member-banks, reached its peak early in November, 1919, when it stood at about $1,500,000,000. Liquidation steadily reduced this total by a third to less than $1,000,000,000 by November, 1920, and by a half to less than $750,000,000 by the following June. Meanwhile loans of all reporting banks in the United States rose from about 16 billions in November, 1919, to over 17 billions on July, 1921. Study of deposits over this period in New York City as compared with those in the agricultural states shows that the $500,000,000 withdrawn from the call market between November, 1919, and November, 1920, was loaned largely to our farmers.

If any one should complain of discrimination, early liquidation or the curtailment of banking accommodation, it should not be agriculture, which benefited in this way by the liquidation of securities, but the brokerage customers who were liquidated to provide the funds. And yet that, it has been claimed, credit was denied to farmers in order to further stock speculation!

The complaints from agricultural centers concerning call money have proved only one feature

of a general attack by them upon the Federal Reserve system.

The merits of this question, involving as it does the entire and vast topic of American banking, cannot be discussed in a short speech. Undoubtedly our past method of financing agriculture has been in some ways inadequate, for our banking system has developed out of commerce and is designed, not out of device but through necessity, primarily to serve commerce. Nevertheless, there is grave danger that the ability of the Reserve system to serve commerce may be vitally impaired by tinkering with the Reserve Act, without effectually assisting agriculture at all.

Let me stress, here, that we have full appreciation of the position of agriculture on this subject. It should be realized by every one that a discontented rural population will cause national disharmony and will defeat the best laid programs of prosperity. It was the rapid development of industry and the consequent rise of cities and city population that heretofore blinded our eyes to the importance of our agricultural problems.

But America has every historical reason for giving the most careful thought to proposals to change her banking system. The continuous curse of American banking, and still its profoundest danger today, is the interjection into it of politics and politicians. After starting brilliantly, considering the times, with a central bank system, the United States suffered for the greater part of a century from the miserably inept state and national banking systems with which political jobbery replaced it, until the coming of the Reserve system in 1914.

Nor has experience with the latter justified extensive changes in it. The Reserve system, barely established at the outbreak of the Great War, successfully financed the nation through the huge inflation of 1915-1919 caused by the War,



and—an even greater feat—through the tremendous period of liquidation in 1919-1921. It has performed for the entire nation many important fiscal tasks, particularly the assumption of the functions formerly exercised by our sub-Treasury system, and the flotation of the colossal Liberty Loans, without which the war could not have been won. No doubt the Reserve system can in minor details be still improved, but its past record is not such as to justify any major operation attended by transfusion of political blood into its veins.

The Federal Reserve system must not be allowed to become the football of American politics, as our banking systems frequently have been in the past. American banking problems must be solved by scientific analysis and study, not by vehement speeches. The Federal Reserve Board must be placed upon the super-political plane now occupied in legislative matters by the Supreme Court. Perfection in the technique of its operations can be attained better through evolution than through hastily written statutes.

No menace to the entire country could well be more insidious and dangerous, than the corruption through politics and local prejudices of that great system upon which the credit and currency of the nation, as a whole and of its citizens individually, now rests. There is no class in the country which would not suffer by its decay through uneconomic legislative restriction. If the long and strenuous effort by the public to establish the Reserve system a decade ago has been justified by its splendid achievements in war and in peace, then the fight to maintain it on its present efficient and non-partisan plane must be equally vigorous and persistent.

This much must, however, be conceded: The problems of land values, land speculation, marketing, transportation and rural credits must receive statesmanlike attention. The investment bankers

of the country might render a great service if they would cultivate the confidence of the farmer.

It might be that this type of business would not be extremely profitable in the beginning, but it is an obligation which the bankers owe to the rural people. There still exists a strong suspicion on the part of the farmers towards banks and bankers —a suspicion which is founded almost entirely on misunderstandings. By taking care of the legitimate investments of farmers and thus preventing the large losses from spurious types of investments the banks would be enabled to take the first step in bringing about a more wholesome relation between banking and farming.

Let me further suggest as a means of getting to the root of many of the troubles besetting American agriculture today, that we give serious attention to the situation in Europe and to devising means for aiding in alleviating that situation.

Without a normal Europe our market for surplus products becomes very restricted, and agriculture provides much of that surplus production.

I have discussed all of these questions because of their intimate relation to our national welfare. In that welfare the investing public has a vital interest. Problems or conditions which menace our prosperity are reflected in adverse reaction on securities and when our security market weakens our industries must also suffer.

I have great faith in the ability of our country to continue its industrial development, to solve the problems affecting our industrial groups, and in its ability also to find some means of aiding in the restoration of Europe.

Our development, heretofore, has been made possible by the responsiveness of an untrammeled and unrestricted securities market to the needs of the nation's commerce and industry. The needs of the future may be even greater than those of the past



and the Stock Exchange furnishes the one market through which the means for greater expansion are obtainable.

It will continue its policy of keeping in touch with enlightened sentiment as the best guide to the fulfilment of its mission, which is to serve the interests of the public. In so doing no special privilege is sought other than freedom from unwise restraints found to be harmful not only to the Exchange but to business and industry as well.

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